ASSOCIATION OF SCOTTISH POLICE SUPERINTENDENTS

Representing the Operational Leaders of the Police Service of Scotland

05 February 2016

ASPS Members,

We are currently going through significant changes to our Pension provisions. ASPS are very eager to provide as much information as we meaningfully can and in a format that is understandable. This is not a straightforward task but please be assured we will continue to strive to do this. I am also very conscious that there is no such thing as a typical pension with members having different provisions depending on age, service and other pension provision.

It is clear Government Policy to reduce the benefits previously available and while at the time of the introduction of the CARE Scheme there was talk of once in a generation changes we are now seeing other stealth changes through changes to Annual Allowance and Life Time Allowances.

What is clear is that ASPS have members on the "87" Pension Scheme and the "14" or CARE Scheme with different benefits. Due to the nature of the schemes many of those on the "87" scheme are being subject to Annual Allowance charges and some will soon be subject to Life Time Allowance Charges.

For those in the CARE scheme the benefits will depend on the length of time in the "87" scheme including the impact of tapering. I am very conscious that there is a dearth of information for those in the CARE scheme and ASPS will continue to make efforts to provide greater clarity for members either though our own offices or through the SPPA or the Police Service.

I have attached a circulation by Chief Supt Tim Jackson QPM who is the lead for the Superintendents Association throughout the UK.

There is a lot of detail in a very helpful piece that brings together a lot of information of particular interest to those subject to Life Time Allowance Charges.

I would like to highlight a number of points made

- You need to think very carefully about coming out of the Pension Scheme.
- You need to individually apply for protection.
- There may be further changes in the March budget and we will provide more detail on that in due course.

Seminars

Tuesday 9th February 2016, 1100hrs – 1400hrs, Queen Street, Aberdeen
23rd February 2016, 1000hrs – 1600hrs, Police Scotland College **-** Tulliallan
2nd March 2016, 1000hrs – 1400hrs, Police Scotland College, Jackton

Yours Sincerely

Craig Suttie
General Secretary

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SENT ON BEHALF OF THE NATIONAL SECRETARY, TIM JACKSON

Folks,

You will be aware that w.e.f. 6th April 2016 the Lifetime Allowance (LTA) is to be reduced from £1.25m to £1.0m. Information about his change has been circulated previously. This e Bulletin will revisit some of the key points already covered, as well as including new information provided very recently by HMRC and the Home Office.

LTA is the maximum amount that an individual can accrue by way of pension savings (pension pot) before a taxation charge (LTAC) is applied to any excess over that figure. It is important to note that such a charge is only payable on **any excess** over the LTA and not on the entire value of the pension savings.

The police pension schemes are classed as 'Defined Benefit' (DB) final salary schemes and, as such, we do not have a 'real' pension pot. Instead, we have a notional one. The value of a member's notional pension pot is calculated by taking the value of their gross (i.e. uncommuted) pension and multiplying it by a factor of 20. Therefore, any member with a gross pension in excess of £50,000 p.a. will exceed the new lower LTA threshold.

It is important to note that if a member has other pension savings which have not been transferred into one of the police pension schemes, including AVCs, these also need to be taken into account when calculating the total value of their pension pot. The only pension that is excluded from LTA calculations is the state pension.

Until this most recent change to the LTA was announced, it was not an issue for members of the Superintending ranks as a Chief Superintendent on scale maximum with 30 years of service would not exceed the LTA of £1.25m. The impact of reducing the threshold to £1.0m means that all Chief Superintendents will, assuming they attain maximum pensionable service, end up exceeding this new lower threshold. All Superintendents who attain scale maximum prior to retirement will also exceed the £1.0m threshold, however, only marginally so (on the basis of current rules). Government has undertaken to uprate LTA in line with CPI from 2018. It is therefore conceivable that, if we experience a protracted period of wage inflation being at a rate lower than price inflation, Superintendents could actually drop below the £1.0m threshold over time.

Police Mutual have produced a helpful factsheet which can be accessed here.

Protection arrangements are being made available by HMRC which will limit the impact of the changes for some of our members. Two types of protection will be made available: Fixed Protection 2016 and Individual Protection 2016. These are explained further in the PM factsheet.

Fixed Protection (FP2016) requires a member to withdraw from the pension scheme as, once FP is in place, no further pension benefits can be accrued (including those arising from pay increases). This is likely to limit the attractiveness of FP as a means of protection to only those members who have already achieved maximum pensionable service as there are some significant dis-benefits in opting out of the scheme early. These are explained in a letter from Paul Nicol (Home Office) dated 29th January 2016 which can be accessed here. Whilst members should read the letter in its entirety, the section highlighted in yellow identifies the particular risks associated with opting out of the pension scheme before maximum pensionable service is attained.

Individual Protection (IP2016) will allow members to continue to benefit from further pension accrual and pay increases. Eligible members will have their own 'personal' LTA based on the valuation of their pension pot at close of 5th April 2016. A taxation charge will only be applied to that amount of their pension pot that exceeds this figure.

Before a member considers FP2016 (with its requirement to cease accrual by opting out) they are recommended to fully evaluate IP2016, which allows for both accrual and pay increases. IP2016 is capped at £1.25m and, as stated above, is entirely dependent on the value of the pension pot at close of 5th April

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2016, subject to a minimum of £1m (referred to below). It may well be that for many officers, IP2016 is superior to FP2016, when FP's restrictions are applied. However, members are recommended to make an informed choice having evaluated their personal circumstances and to take financial advice before doing so. However, time is of the essence here. If a member intends applying for FP2016 they will need to have withdrawn from the pension scheme by no later than 5th April 2016. Regulation G4(2) requires that where a member of the 1987 PPS wishes to withdraw from the pension scheme, they must give one pay run's notice to do so. Despite both the PSAEW and CPOSA having requested the Home Office to provide scheme specific guidance following the July budget, it was only published on 29th January 2016. The Home Office will therefore be requesting that pension administrators exercise flexibility around this requirement on timescales (albeit 5th April 2016 is absolute).

Who can apply for protection?

Only those members who, on 5th April 2016, have a pension pot in excess of the new LTA threshold of £1.0m will be able to apply for protection.

The value of our pension grows with each year of service – and therefore the value of our notional pension pot grows too (by either 1/60th or 2/60th of our salary dependent upon length of service). I have done some rough calculations and worked out that:

(a) a Superintendent on the scale maximum of £75,816, who has been on this pay point for at least twelve months (and with no other pension savings) would not exceed the new £1.0m threshold until they had accrued approx. 39.6/60th of their pensionable benefits. This point will be reached shortly after the officer achieves 29 years 9 months of service, and

(b) a Chief Superintendent on the scale maximum of £83,925, who has been on this pay point for at least twelve months (and with no other pension savings) would not exceed the threshold until they had accrued approx. 35.75/60th of their pensionable benefit. This point will be reached when the officer achieves approx. 27 years 10.5 months of service.

If you are uncertain of the value of your pension pot, and therefore your eligibility to apply for protection, you should contact your force's pension administrator who will be able to provide you with the relevant figures.

A number of members have enquired what the likely impact of this change in LTA will be upon their own pension. The simple answer is that everyone's circumstances will be different and I cannot answer that question. However, some modelling has been done very helpfully by one of the firms of financial advisors who work alongside the Association providing support to members. They have calculated that a Chief Superintendent on scale maximum with 30 years of service retiring at the age of 48.5, who is not eligible for IP and who chooses not to commute, would see a reduction in their annual pension of approx. £1,200 to cover the LTAC (through 'scheme pays'). Whilst any increased tax burden is unwelcome, this figure may be less than some members might have anticipated.

Applying for Protection

Members who are intending to retire from the Service prior to 6th April 2016 do not need to apply for protection as they will not be affected by the reduction in the LTA threshold. I am unsighted on what the implications are should a member retire from the Service prior to 6th April and continue to accrue pension benefits elsewhere, or take up paid employment where pension provision is part of the remuneration package. If this applies to you, you should take advice in relation to your particular circumstances.

HMRC is in the process of developing an 'on line' registration system for applying for protection. This will not be operational until July 2016. Members who are eligible to apply for protection, and who are not planning to retire until after July 2016, should wait and register for protection when the 'on line' facility becomes available.

Those members who are eligible to apply for protection and are planning to retire between 6th April 2016 and July 2016 will need to apply in writing to HMRC for interim protection. The address where such applications should be sent is:

HMRC Pensions Policy

Specialist PT

Fitz Roy House

Castle Meadow Road

Nottingham NG2 1BD

Details of how to apply for protection, and the information that needs to be submitted to HMRC, are contained within Section 3 of HMRC's Pension Schemes Newsletter # 74 (published December 2015) and Section 5 of HMRC's Pension Schemes Newsletter # 75 (published January 2016). Both documents can be accessed here:

https://www.gov.uk/government/publications/pension-schemes-newsletter-75-january-2016/pension-schemes-newsletter-75-january-2016

https://www.gov.uk/government/publications/pension-schemes-newsletter-74-december-2015

HMRC has made it clear in their most recent newsletter that applications for interim protection cannot be submitted before 6th April 2016. I am not yet certain what course of action those members who plan to retire on, or shortly after 6th April 2016, will need to take in order to get everything in place for their retirement. I have written to HMRC for clarification on this matter and will circulate their response once received. The solution to this problem **could** be for a member who finds him/herself in this position to notify their force's pensions administrator in advance that they intend to apply for IP2016. The pensions administrator will be able to estimate the IP for themselves and then calculate the correct amount of tax to be paid. However, the pensions administrator may require the member to sign a mandate agreeing that, should the IP application subsequently be refused, the member will pay the full tax charge. If a member intends to apply for FP2016, then they should opt out of the pension scheme no later than 5th April (having completed their G4(2) payroll notice) and notify their pension administrator accordingly. If you are a member who intends to retire on, or very shortly after, 6th April 2016, it might be worth having an early conversation with your force's pensions administrator.

I hope this is helpful. Further information will be provided as it becomes available.

In closing, please note that tax is an individual and personal responsibility. What I have shared with you is my best and current understanding of the situation as it relates to the forthcoming change in LTA. It is not intended as financial advice nor should it be taken as such. If you are uncertain as to your own position resulting from this change to LTA, you should consult a properly qualified financial advisor and/or your force's pension administrator for clarification.

It remains to be seen what further announcements the Chancellor will make in his budget speech on 16th March . . . .

Tim

Chief Superintendent Tim Jackson | National Secretary |

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